__Fron the London End__

Wage Policy Misfires

THE Conservative Government's ill-conceived pay pause policy emphasises once more the Government's inept handling of the economic situation, and casts doubts on its ability to go ahead with its much-vaunted programme of non-socialist planning. When the failure of ten years of Tory rule became obvious and sterling ran into difficulties, the Government lost its nerve, and the only solution it could think of, besides the old weapons of raising the Bank Rate and cutting public investment, was to force a showdown with labour and initiate a pay pause policy. The fact that no reference was made to the Capital Gains Tax in the Queen's speech, made it clear that labour was to bear the brunt of the Government's new measures. The only other step contemplated by the Government was to set up a Planning Committee which the Trade Union Congress is hesitating to join, and rightly too.

Faced with the threat of a strike in the electricity supply industry, the Electricity Council agreed to a pay rise, apparently without the knowledge of Mr Lloyd who was in Paris at the time. The confusion in Conservative policy was clearly illsutrated when Macmillan got up to make his theatrical speech in the Commons on Tuesday. The speech achieved nothing and there is now no doubt that wage claims will continue to be pressed, if only harder. The only result of the Government's wage policy has been to create a great deal of ill-will among the Unions,

The electrical workers' success has shocked the City. The Electricity Commission has made the Chancellor look silly. The Government, it is true, has no control over wage settlements in nationalised industries, except where it has to find the money because the industry does not pay its way.

The differences in interpretation of the pay pause policy are certainly interesting For the Treasury, it apparently means an absolute end to wage increases, even if that means breaking bargains and upsetting arbitration. Mr Llovd's own view is Hot clear. Has the policy now changed from one of a wage pause to one of wage restraints? The Government's own statements make it difficult to discover what its policy really is. What are Unions making wage claims, and employers who have to answer them, supposed to do? Is a major strike considered more, or less harmful to the economy than a modest wage increase? The Government has put itself in a rather unfortunate position, as according to the City, a weakening on the wages front would jeopardise sterling, whereas toughness might bring industrial trouble that would harm exports. Watching Mr Lloyd's mishandling of the economic situation, one cannot help being reminded of Osbert Lancaster's crack that Selwyn Lloyd is admired because once he has made up his mind, "no power on earth can make him stick to it."

A secondary result of the Government's wage policy is that the Trade Union Congress, reacting to Macmillan's speech, has now refused to endorse its Economic Committee's recommendation to enter the Government's new planning machinery. At one time the National Planning Body looked as if it was going to be set up before the end of this year; the employers had already agreed to join, and the T U C had been on the verge of accepting the six scats the Chancel--or had offered them on his National Economic Development Council. Macmillan's speech obviously shook the Unions' confidence in the Government. With many wage claims on the stocks or in the machine, even moderate men on the T U C were afraid to give any kind of endorsement to the Prime Minister's views which might be used against them in. negotiations later. It is beginning to appear that the Government's aim was to use the National Economic Development Council merely as a stick to beat down demands. The vain hope that the new Planning Commission would convert a Conservative Government to socialism has now been abandoned. It will be recalled that in August, when Selwyn Lloyd had failed to consult the Unions about the pay pause, they were left with the impression that he was not the kind of man who could run a proper planning body. 'The issue was one of confidence in his intentions and purpose." t .The Trade Union Congress, however, changed its mind by October 25, when it appeared that Mr Lloyd did not want the Union men on the Board as mere rubber stamps. The Prime Minister's statement, however, has been interpreted by the T U C as a return to "obduracy and peremptoriness". So Mr Maemillan's imprecise but ostentatiously tough statement has done no good, either to opinion in the City, or to organised labour. The T U C has always held that the pay pause was "bad and silly, impractical unfair and undesirable." In these circumstances, Macmillan's statement caused a grave shock. The T U C has taken up the attitude that if the Prime Minister did not listen to them about a short-term matter like the pay pause, it seemed unlikely that he would listen to them on a long-term subject like planning.

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Fall in Production

Now that the latest figures of production in industry are available, revealing an unmistakable downward trend the reason for Selwyn Lloyd's whistling in the dark to keep up his courage and the studied efforts of ministers to dismiss the spectre of an impending slump are quite clear.

In the absence of the reassurances recently given by the Chancellor that strong expansionary forces would be at work next year, there might well have been wide concern at the trend now disclosed. Indeed, recession fears could well have been caused by these figures. The seasonably adjusted index of production which was at first thought to have levelled off in August at July's peak rate of 125 (1954—100) is now known to have dropped a' point in August and to have fallen a further two points in

September to 122. Developments in the manufacturing branch of Induetry probably go far to account for the new trend. The main reason for the fall was continued weakness of the steel, motor and appliance industries, Steel production fell to three-quarters of capacity in September and the motor industry was hampered both by strikes and by the continued fall in home demand. Despite all Mr Lloyd's assurances, it appears that the index will fall further before it again moves forward. The disappointing rate of growth also gives emphasis to the stand that Selwyn Lloyd took at 0 E C D when he forced the acceptance of lower growth targets for member countries.

At the same time, the demand for labour is easing. From almost an all-time low of 1.2 per cent in June and July, unemployment has risen month by month and in mid-November reached 1.7 per cent. This is more than a mere seasonal increase. Whereas in July, the peak month of labour shortage, there were 140,000 more jobs than unemployed, in November there were 125 000 more unemployed than in jobs. The main question now is, what will happen to unemployment in the months ahead? For seasonal reasons it is likely to reach the 2 per cent mark in January and in the normal course of events would begin to fall after that.

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Temptation to Devalue

While the chances for British participation in the European Common Market continue to increase, an important topic has recently been discussed by the EEC Commission. This deals with the position of sterling and the continuing balance of payments difficulties which Retain is experiencing. Common Market interest in this subject is far from theoretical What the 'Six' fear most is that, in view of these difficulties. Britain might devalue on the eve of jotnins the Common Market, and thus effectively improve the competitive position of British exports. The French, who have very vivid recollections of their own successful devaluation in December 1958. on the eve of the opening of 'the Common Market, are inclined to belive that the temptation for Britain to follow milt would be very strong. They are, therefore, anxious that common monetary measures to help strengthen the sterling should be discussed by the 'Six', in order to avoid devaluation by Britain. Another factor which has lent urgency to this problem is the serious effect that devaluation could have on Britain's relations with Commonwealth countries. In adition to the abolition of Commonwealth trade preferences if Britain were to join the Common Market, devaluation of sterling balances held by Commonwealth countries would indeed be a very hard blow. The implications of devaluation of sterling, which were closely studied by the EEC Commission, are to be discussed at a meeting of the Finance Ministers of the 'Six' in Paris, on December 1 and 2, when the whole question of the financial implications of Britain's entry into the Common Market will come up for discussion. So far no definite proposals have been made for common monetary measures to help the sterling: but everyone is aware that the sweeping tariff cuts that Britain would have to make on entering; the Common Market would affect her trade and balance of payments Food imports, particularly, will cost more. In view of French and German reluctance to hand over too much power to the International Monetary Fund it does not seem' likely that the 'Six' will feel that the IMF is the best instrument for helping the sterling. It is understood that the French and the Germans favour action on the lines of the recent Basic Agrement but the time on a Common Market basis.

The 'Secret' Speech

A further example of Government bungling is the leak of Mr Heath's Common Market statement to the United States. It will be recalled that when Mr Heath spoke to the Commonwealth High Commissioners, he was not prepared to show them the full text of his statement and contented himself with a summary of the main points. He turned down a Canadian request for a copy of the statement. When the news of 'the leak became public, there was naturally a very deep sense of shock. If it was proper for Washington — which is not a party to the Common Market negotiations—to receive the full text of the statement, surely it was only right that Commonwealth countries, who are vitally interested, should also have received its copies. To withhold a vital document like this is a deep affront to the Commonwealth, Mr Gaitskell, attacking the Government on this point, said: "The last stage of this development is the most extraordinary of all. It is reported this morning that the US Government has a copy of Mr Heath's speech. I say it is absolutely wrong that another foreign country should have a copy of this speech while it is denied to the countries of the Commonwealth". Ruffled feelings cannot be completely smoothed by the fact that all the Commonwealth High Commissioners have now received a copy of this speech. Following so soon after the Immigration Bill, this episode can only serve to damage Commonwealth relations further.